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ORIGINAL

COMPLETED

REVIEW OF THE FEDERAL HOME LOAN MORTGAGE CORPORATION'S AUDIT FOR 1981

COMMUNICATION

FROM

COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE AUDIT OF THE FEDERAL HOME LOAN MORTGAGE CORPORATION'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1981 (AFMD-82-92, JULY 30, 1982)

AUGUST 2, 1982.—Referred jointly to the Committees on Government Operations and Banking, Finance and Urban Affairs, and ordered to be printed

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WASHINGTON : 1982

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I

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of The Federal Home Loan Mortgage Corporation's Financial Statements For The Year Ended December 31, 1981

GAO reviewed the report on the audit of the Federal Home Loan Mortgage Corporation's 1981 financial statements and the work of its independent public accountant.

GAO concurs with the opinion of the Corporation's accountant and transmits it to the Congress.

GAO/AFMD-82-92
JULY 30, 1982

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-179312

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review of the Arthur Andersen & Co. (AA & Co.) audit of the Federal Home Loan Mortgage Corporation's financial statements for the year ended December 31, 1981. The Corporation is a Government corporation established by the Congress in 1970 to increase housing availability by strengthening and further developing the secondary market in residential mortgages.

We reviewed the workpapers and audit report of AA & Co., the Corporation's independent certified public accountants, to determine the extent to which we could rely on the Corporation's financial statements. We performed such tests of its workpapers and audit report as we considered necessary to ensure that:

--The Corporation's financial statements were prepared in accordance with generally accepted accounting principles.

--AA & Co.'s audit was made in accordance with generally accepted government auditing standards.

--AA & Co. has established the necessary policies and procedures to comply with other applicable professional standards.

Our review was conducted at the Corporation's headquarters in Washington, D.C.

During our review of AA & Co.'s workpapers and audit report, nothing came to our attention that would indicate that its opinion on the Corporation's 1981 financial statements was inappropriate. We therefore concur with, and transmit to the Congress, AA & Co.'s opinion and the Corporation's 1981 financial statements. (See app. I.)

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We are sending copies of this report to the Director of the Office of Management and Budget; Chairpersons of the House and Senate

Banking Committees, the House and Senate Committees on Appropriations, the Senate Committee on Governmental Affairs, the House Committee on Government Operations; and the Chairman of the Board of Directors, Federal Home Loan Mortgage Corporation.

for Milton J. Socolar
Comptroller General
of the United States

APPENDIX I

ARTHUR ANDERSEN & Co.

1666 K STREET, N. W.
WASHINGTON, D. C. 20006
(202) 862-6100

To the Board of Directors of Federal Home
Loan Mortgage Corporation:

We have examined the balance sheets of Federal Home Loan Mortgage Corporation (a Federally chartered corporation exempt from income taxes) as of December 31, 1981, and 1980, and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Federal Home Loan Mortgage Corporation as of December 31, 1981, and 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

February 12, 1982

APPENDIX I

ARTHUR ANDERSEN & Co.

1666 K STREET, N. W.
WASHINGTON, D. C. 20006
WRITER'S DIRECT DIAL NUMBER
(202) 862-3100

The Board of Directors
Federal Home Loan Mortgage Corporation:

We have examined the financial statements of the Federal Home Loan Mortgage Corporation (Corporation) for the year ended December 31, 1981, and have issued our report thereon dated February 12, 1982. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following cycles:

(1) Treasury

(2) Expenditure

(3) Mortgage

  (a) Loan Accounting
  (b) Investor Accounting

(4) Financial Reporting

The purpose of our study and evaluation, which included the above listed cycles, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance

APPENDIX I

with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the corporation taken as a whole or on any of the categories of internal accounting controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management of the Corporation; the General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Arthur Andersen & Co

February 12, 1982

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APPENDIX I

ARTHUR ANDERSEN & Co.

1666 K STREET, N. W.
WASHINGTON, D. C. 20006
WRITER'S DIRECT DIAL NUMBER
(202) 862-3100

The Board of Directors
Federal Home Loan Mortgage Corporation:

We have examined the financial statements of the Federal Home Loan Mortgage Corporation (Corporation) as of and for the year ended December 31, 1981, and have issued our report thereon dated February 12, 1982. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (Standards), promulgated by the Comptroller General as of February 27, 1981, which pertain to financial and compliance audits and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed the provisions of Title III of the Emergency Home Finance Act of 1970, as amended (PL 91-351) to determine compliance with the requirements which would have a material financial statement impact in the event of noncompliance.

In our opinion, the Corporation complied with the requirements of Title III of the Emergency Home Finance Act of 1970, as amended (PL 91-351) which would have a material financial statement impact in the event of noncompliance. As regards the requirements that are not material to the financial statements, nothing came to our attention to indicate noncompliance by the Corporation. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with requirements that are not material to the financial statements.

Arthur Andersen & Co.

February 12, 1982

APPENDIX II

FEDERAL HOME LOAN MORTGAGE CORPORATION

Financial Statements

Balance Sheets

	December 31, 1981	1980
	(000 omitted)	
Assets		
Mortgage loans, at unpaid principal balances (Note 3):		
Insured by Federal Housing Administration (FHA) or guaranteed by Veterans Administration (VA)	$ 1,046,796	$ 1,089,645
Participation in conventional mortgages	3,242,142	3,216,747
Conventional mortgages	948,322	749,964
	5,237,260	5,056,356
Less—Unamortized mortgage purchase discount	58,772	50,606
—Portfolio valuation allowance (Note 4)	9,000	9,000
Total mortgage loans	5,169,488	4,996,750
Cash and temporary cash investments	629,132	19,332
Accrued interest receivable	50,258	48,313
Accounts receivable and other assets	215,955	176,487
Real estate owned	17,997	8,212
Unamortized mortgage sales discount	243,292	229,300
	$ 6,326,122	$ 5,478,394
Liabilities and Stockholders' Equity		
Notes and bonds payable (Note 5):		
Due within one year	$ 1,943,270	$ 1,034,560
Due after one year	3,536,792	3,651,937
	5,480,062	4,686,497
Other liabilities:		
Accrued interest	108,494	99,597
Accounts payable and other accrued expenses	2,553	2,168
Principal and interest due to Mortgage Participation Certificate investors	203,883	203,906
	5,794,992	4,992,168
Reserve for uninsured principal losses (Notes 2 and 6)	81,000	65,000
Contingencies (Notes 2 and 7):		
Mortgage Participation and Guaranteed Mortgage Certificates	19,897,363	16,962,234
Less—Underlying mortgage loans sold	19,897,363	16,962,234
	—	—
Subordinated borrowings and stockholders' equity:		
Subordinated Capital Debentures (Note 8)	200,000	200,000
Stockholders' equity:		
Common stock, nonvoting, $1,000 par value; no maximum authorization; 100,000 shares issued and outstanding	100,000	100,000
Capital in excess of par value	100,000	100,000
Retained earnings	50,130	21,226
	250,130	221,226
Total subordinated borrowings and stockholders' equity	450,130	421,226
	$ 6,326,122	$ 5,478,394

The accompanying notes are an integral part of these balance sheets.

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FEDERAL HOME LOAN MORTGAGE CORPORATION

Statements of Income and Retained Earnings

	Year Ended December 31,		
	1981	1980	1979
		(000 omitted)	
Income from total portfolio:			
Interest and discount on mortgage loans	$560,985	$438,657	$324,271
Interest on temporary cash investments	29,313	31,678	42,660
Management and guarantee fee	36,175	22,717	17,631
	626,453	493,052	384,562
Interest and related expenses (Note 5):			
Long-term debt expense	412,480	336,941	266,880
Short-term debt expense	144,459	79,585	44,685
	556,939	416,526	311,565
Net interest margin on portfolio	69,514	76,526	72,997
Provision for uninsured principal losses (Note 6)	16,413	22,758	19,724
Administrative expenses	30,298	26,098	19,434
Other income, net	(8,101)	(5,916)	(1,771)
	38,610	42,940	37,387
Net income	30,904	33,586	35,610
Retained earnings at the beginning of the period	21,226	37,640	27,030
Dividends paid	(2,000)	(50,000)	—
Transfer to capital in excess of par value	—	—	(25,000)
Retained earnings at the end of the period	$ 50,130	$ 21,226	$ 37,640

The accompanying notes are an integral part of these statements.

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FEDERAL HOME LOAN MORTGAGE CORPORATION

Statements of Changes in Financial Position

	Year Ended December 31,		
	1981	1980	1979
	(000 omitted)		
Funds Provided:			
Net income	$ 30,904	$ 33,586	$ 35,610
Charges (credits) to income not affecting funds:			
Amortization of mortgage purchase discount	(8,794)	(7,891)	(8,103)
Amortization of mortgage sales discount	33,606	34,843	31,889
Provision for losses	16,413	22,758	19,724
Funds provided from operations	72,129	83,296	79,120
Mortgage loan principal repayments	124,960	208,548	234,631
Proceeds from issuance of notes and bonds, net of debt expense	399,150	1,048,337	648,723
Mortgage loans sold:			
Mortgage Participation Certificates (including $2.3 billion in Guarantor Program volume in 1981)	3,508,404	2,485,373	3,747,943
Guaranteed Mortgage Certificates	—	—	744,000
Increase (decrease) in short-term notes	756,631	(78,098)	591,910
Total funds provided	$4,861,274	$3,747,456	$6,046,327
Funds Applied:			
Mortgage loans purchased (including $2.3 billion in Guarantor Program volume in 1981)	$3,722,515	$3,667,736	$5,697,854
Dividends paid	2,000	50,000	—
Notes and bonds retired	388,894	215,083	326,122
Increase (decrease) in cash and temporary cash investments	609,800	(213,923)	(101,596)
Other items	138,065	28,560	123,947
Total funds applied	$4,861,274	$3,747,456	$6,046,327

The accompanying notes are an integral part of these statements.

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Notes to Financial Statements

December 31, 1981 and 1980

1) Summary of Significant Accounting Policies

The Federal Home Loan Mortgage Corporation (the corporation) is a federally chartered corporation whose capital stock consists solely of nonvoting common stock held by the 12 Federal Home Loan Banks.

Accounting for Mortgage Loan Sales

The corporation sells Mortgage Participation Certificates (PCs) and Guaranteed Mortgage Certificates (GMCs), representing undivided interests in conventional mortgage loans. The issued certificates have been accounted for as a sale of assets and the mortgage loans sold are accordingly excluded from the corporation's retained mortgage portfolio. Since the corporation guarantees the timely payment of interest at the PC and GMC certificate rates, the ultimate collection of principal on the PCs and the scheduled collection of principal on the GMCs, they are reflected in the balance sheets as contingent liabilities.

A separate Trust has been established for each GMC issue. The corporation, as Trustee, is primarily responsible for forwarding principal collections and interest to GMC investors and for conducting such other investment transactions prescribed in accordance with the terms of each Indenture of Trust.

Recognition of Gain (Loss) on Mortgage Loans

Interest margin, representing the excess of the effective interest income rate to the corporation over that payable to the investor, is recognized as earned over the life of the related mortgage loans and is reported as management and guarantee fee income in the accompanying financial statements.

The corporation recognizes losses (negative interest margin) currently on sales of mortgage loans and on outstanding commitments. The corporation provides currently for uninsured principal losses on mortgage loans, either retained in portfolio or sold under the PC and GMC programs. Uninsured principal losses are charged against the appropriate reserve as incurred.

Mortgage Purchase and Sales Discount

Discount on mortgage loans purchased is recorded as income over the life of the related mortgage loans, using the level yield method.

Discount on the sale of PCs is amortized over the life of the related underlying mortgage loans, and discount on the sale of GMCs is amortized over the period to the optional repurchase date, both using the level yield method. Amortization of sales discount is recorded as a reduction of management and guarantee fee income in the accompanying financial statements.

Effective January 1, 1981, the corporation decreased the rate of amortization of mortgage purchase and sales discount based on its revised estimate of the repayment pattern of mortgage loans in its conventional mortgage portfolio. The effect of this change was to increase net income by $6.8 million for the year ended December 31, 1981.

Commitment Fees

Commitment fees are recognized as income when the commitments are taken.

Amortization of Debt Expense

Debt expense is amortized on a straight line basis over the period during which the related indebtedness is outstanding.

2) Mortgage Loan Sales and Related Matters

Holders of PCs receive interest monthly at the certificate rate together with their pro rata share of principal payments received by the corporation. Unpaid balances of the outstanding certificates were approximately $17.9 billion and $14.8 billion at December 31, 1981, and December 31, 1980, respectively. Based on the corporation's experience, management believes that the weighted average life of the conventional mortgage loans purchased by the corporation ranges between nine and ten years. At December 31, 1981, and December 31, 1980, the effective interest income rate to the corporation over that payable to the PC investor was .42 percent and .41 percent, respectively. After giving effect to the amortization of deferred charges, the net interest margin was .11 percent and .04 percent, respectively. The effective interest income rate to the corporation and effective rate payable to the investor have been adjusted to semiannual yield equivalent. Additionally, the effective rate payable to investor has been adjusted for the effect of reinvestment of portfolio collections pending disbursement to PC holders.

Holders of GMCs are paid interest semiannually at the certificate rate and are paid annually their pro rata share of principal collected or the specified minimum annual principal reductions, whichever is greater. Any GMC holder may, at his option, require the corporation to repurchase such certificates on a designated optional repurchase date at the then unpaid principal balance. At December 31, 1981, such optional repurchase dates range from March 15, 1990, to September 15, 2004. At December 31, 1981, and December 31, 1980, outstanding GMCs totaled $2.0 billion and $2.2 billion, respectively, and the effective interest income rate to the corporation over that payable to the GMC investor was .37 percent at both dates. After giving effect to the amortization of deferred charges, the net interest margin was .23 percent and .21 percent, respectively. The effective interest income rate to the corporation has been adjusted to semiannual yield equivalent. Additionally, the effective rate payable to investor has been adjusted for the effect of reinvestment of portfolio collections held in Trust pending disbursement to GMC holders.

The maximum contingent liability of $19.9 billion and $17.0 billion at December 31, 1981, and December 31, 1980, respectively, plus interest, is offset by a like amount of interest bearing mortgage loans underlying the PCs and GMCs, including principal collections held in the GMC Trusts of $39 million at December 31, 1981, and $84 million at December 31, 1980. In management's opinion, the $81 million reserve for uninsured principal losses is adequate to absorb any losses anticipated at December 31, 1981.

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3) Mortgage Loans

As of December 31, 1981, and December 31, 1980, the effective net yields on retained mortgage loans, adjusted to semiannual yield equivalent and adjusted for the effect of discount amortizations, less servicing fees, were as follows.

	December 31,	
	1981	1980
FHA/VA mortgages	7.93%	8.02%
Participation in conventional mortgages	11.48%	11.62%
Conventional mortgages	12.47%	12.11%
Total effective income	10.95%	10.92%

4) Portfolio Valuation Allowance

An analysis of the portfolio valuation allowance for the year ended December 31, 1981, and December 31, 1980, follows.

	December 31,	
	1981	1980
	(000 omitted)	
Balance, beginning of period	$9,000	$9,000
Provision charged to current earnings	35	7,400
Loss on sales of mortgage loans	(35)	(7,400)
Balance, end of period	$9,000	$9,000

5) Notes and Bonds Payable

A summary of notes and bonds payable is as follows.

	Maturity	December 31, 1981 Effective Interest Rate	December 31, 1981 Balance	December 31, 1980 Effective Interest Rate	December 31, 1980 Balance
			(000 omitted)		(000 omitted)
Due within one year:					
Discount notes		11.94%	$ 932,275	— %	$ —
Mortgage securities sold under agreements to repurchase		13.07	410,000	17.94	516,000
Advances from Federal Home Loan Bank (pass-through of short-term discount notes)		15.53	58,300	12.61	103,950
Notes payable to GMC Trusts		—	—	17.88	48,166
Current portion of long-term debt		10.67	492,695	8.68	366,444
Total due within one year		11.96	1,943,270	14.12	1,034,560
Due after one year:					
Bond payable to bank	1986	7.75	13,906	7.75	15,026
Notes to Federal Home Loan Bank (pass-through of Consolidated Federal Home Loan Bank Obligations)	1982	—	—	10.68	490,000
	1983	11.91	600,000	11.91	600,000
	1984	10.41	500,000	9.54	400,000
	1985	8.32	640,000	8.32	640,000
	1986	9.93	250,000	9.93	250,000
	1987	11.13	200,000	11.13	200,000
	1983/1993	7.41	400,000	7.41	400,000
	1987/1997	7.91	300,000	7.91	300,000
			2,890,000		3,280,000
Mortgage-Backed Bonds	1985	5.30	3,461	5.30	3,461
	1983/1995	8.68	84,025	8.68	91,025
	1984/1996	7.81	95,400	7.81	112,425
	1982/1997	7.25	150,000	7.25	150,000
			332,886		356,911
Debentures	1984	16.53	300,000	—	—
Total due after one year		10.00	3,536,792	9.43	3,651,937
Notes and Bonds Payable		10.70	$5,480,062	10.47	$4,686,497

Note: The effective interest rates above are on a semiannual basis.

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Scheduled principal payments for all notes and bonds payable for each of the next five years are as follows:

	(000 omitted)
1982	$1,943,270
1983	$ 608,227
1984	$ 613,717
1985	$ 650,369
1986	$ 274,455

Discount Notes

The discount notes are unsecured general obligations of the corporation. They are offered on a discounted basis and have maturities of one year or less.

At December 31, 1981, the corporation had established with various commercial banks lines of credit aggregating $518 million. For issues prior to March 23, 1982 these lines of credit are maintained so that the total face amount of outstanding Discount Notes does not exceed two times the aggregate unused commercial bank lines of credit. For issues on or after March 23, 1982 this coverage will be reduced to three times the aggregate unused lines.

Mortgage Securities Sold Under Agreements to Repurchase

Repurchase agreement programs have maturities ranging up to one year. The agreements outstanding at December 31, 1981 provide for the sale and repurchase of $484 million of PCs issued by the corporation. The agreements are accounted for as financing transactions and, accordingly, such mortgages are included in the corporation's retained mortgage portfolio on the accompanying balance sheets.

Notes Payable to GMC Trusts

The notes payable to GMC Trusts are collateralized by FHA/VA mortgages included in the corporation's retained mortgage portfolio.

Bond Payable to Bank

The bond payable to bank is collateralized by a like amount of FHA/VA mortgages and calls for specific annual principal repayments ranging from $1,120,000 to $1,408,000 over the remaining life of the bond, with the balance due at maturity.

Notes to Federal Home Loan Bank

The Federal Home Loan Banks are required to maintain certain assets equal to their outstanding consolidated obligations. With respect to the $300 million of these notes to a Federal Home Loan Bank maturing in 1982, $600 million maturing in 1983, $200 million maturing in 1984, $400 million maturing in 1985, $250 million maturing in 1986, and $200 million maturing in 1987, the corporation may be required to pledge a portion of its mortgages retained in portfolio and/or temporary cash investments to collateralize a portion or all of the $1.950 billion obligation for the periods during which the Federal Home Loan Banks do not meet this aforementioned requirement. The 1983/1993 and 1987/1997 notes are redeemable at the corporation's option commencing 1983 and 1987, respectively, at their face value.

Mortgage-Backed Bonds

The 1982/1997, 1983/1995, and 1984/1996 Mortgage-Backed Bonds are redeemable at the corporation's option commencing 1982, 1983, and 1984, respectively, at their face value. On the 1983/1995 and 1984/1996 bonds, a sinking fund provides for annual retirements of $7.0 million and $7.5 million of the principal amount of bonds, respectively, which commenced in 1976 and 1977. In addition, the corporation has a noncumulative option to increase the sinking fund amounts each year by an amount not to exceed the annual retirement amounts.

All Mortgage-Backed Bonds are guaranteed as to principal and interest by the Government National Mortgage Association (GNMA). Under the provision of a Trust Indenture with GNMA dated October 26, 1970, and supplements thereto, the corporation conveyed mortgages to the Trust as security for the Mortgage-Backed Bonds. As of December 31, 1981, and December 31, 1980, Trust assets of approximately $600 million and $650 million, respectively, constituting primarily principal balances of such mortgages, are restricted for the payment of principal and interest on the Mortgage-Backed Bonds and are included in the accompanying balance sheets. Gains from the repurchase of a portion of the Mortgage-Backed Bonds for the purpose of meeting sinking fund requirements were $5.2 million, $2.9 million and $1.2 million in 1981, 1980 and 1979, respectively.

Debentures

The debentures are unsecured general obligations of the corporation. They are issued in the minimum principal amount of $10,000 and are not subject to redemption prior to maturity date.

6) Reserve for Uninsured Principal Losses

As of January 1, 1981, the corporation prospectively lowered its rate of provision for uninsured principal losses.

This change in accounting estimate increased income for 1981 by $8.4 million. An analysis of the reserve for uninsured principal losses for the year ended December 31, 1981, and December 31, 1980, follows.

	December 31,	
	1981	1980
	(000 omitted)	
Balance, beginning of period	$65,000	$50,000
Provision reflected in current earnings	16,413	15,358
Uninsured principal losses	(413)	(358)
Balance, end of period	$81,000	$65,000

7) Commitments

Commitments to Purchase

The average effective income rate on commitments to purchase mortgages is determined after deducting servicing fees. Delivery of mortgages under the forward commitment program is at the option of the seller. Delivery is mandatory under all other commitment programs and must occur within 60 days of the contract date.

	Outstanding Commitments			
	December 31, 1981		December 31, 1980	
	Average Effective Income Rate*	Amount	Average Effective Income Rate*	Amount
		(000 omitted)		(000 omitted)
Conventional Mortgages:				
Home	16.93%	$244,117	14.85%	$230,047
Multi-family	17.47	3,553	14.90	21,874
Forward programs	18.57	123,038	14.76	194,665
Commitments to purchase		$370,708		$446,586

Commitments to Sell

The corporation's PCs are continuously offered for sale under both mandatory and optional delivery programs. Delivery periods range from seven to 150 days under the mandatory program. Settlements occur a minimum of 270 days from the date of contract where delivery is at the option of the corporation.

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	Outstanding Commitments			
	December 31, 1981		December 31, 1980	
	Average Effective Rate Payable To Investor*	Amount	Average Effective Rate Payable To Investor*	Amount
		(000 omitted)		(000 omitted)
Mandatory	16.52%	$ 65,000	14.65%	$142,100
Optional	18.10	117,650	14.39	181,800
Commitments to sell		$182,650		$323,900

Commitments—Guarantor Program

Under this program mortgage originators sell mortgages to the corporation at par and in exchange simultaneously purchase PCs equal to the unpaid principal balance of the mortgages sold to the corporation. This program was not in effect prior to 1981.

	Outstanding Commitments	
	December 31, 1981	
	Average Effective Rate*	Amount
		(000 omitted)
Commitments to purchase	9.36%	$3,128,591
Commitments to sell	8.87%	$3,128,591

*The average effective income rate and the average effective rate payable to investor are on a semiannual basis and have been adjusted for discounts and fees. Such rates have been computed based on management's estimate of mortgage loan repayments which incorporates historical experience, using the level yield method. The effective rate payable to investor has been adjusted for the effect of reinvestment of portfolio collections pending disbursement to PC holders. If actual mortgage loan repayments or reinvestment rates vary from the assumptions, the average effective income rate and the average rate payable to investors will also vary.

8) Subordinated Capital Debentures

Subordinated capital debenture issues at December 31, 1981, and December 31, 1980, consisted of:

	December 31, 1981		December 31, 1980	
Maturity	Effective Interest Rate	Balance	Effective Interest Rate	Balance
		(000 omitted)		(000 omitted)
1987	11.50%	$ 50,000	11.50%	$ 50,000
1988	9.41	150,000	9.41	150,000
		$200,000		$200,000

The debentures are subordinated to all obligations and liabilities of the corporation, including obligations of others that the corporation has guaranteed, whether existing at the date of issuance or thereafter incurred or created. The $50 million debentures which were issued to the Federal Home Loan Banks on June 20, 1980 are also subordinated to the $150 million debentures.